

REPORT OF THE AUDITOR-GENERAL TO THE LIMPOPO PROVINCIAL LEGISLATURE AND THE COUNCIL ON THE CAPRICORN DISTRICT MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the Capricorn District Municipality set out on pages XX to XX, which comprise the statement of financial position as at 30 June 2012, the statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting Officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act, 2011 (Act No.6 of 2011) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the *General Notice* issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for qualified opinion

Revenue

6. Included in revenue of R592 592 842 (2011: R527 643 024), in the financial statements, is service charges and interest earned amounting to R40 568 992 and R3 690 493 respectively (2011: R34 076 534 and R3 883 807). The collection of revenue from service charge and the resulting interest from the debtors has been outsourced to selected local municipalities within the district. The entity could not provide appropriate supporting documentation for the aforementioned amounts. The municipality's records did not permit the application alternative procedures regarding the amount. Consequently I was unable to determine whether any adjustment relating to revenue in the financial statements was necessary.
7. Subsequent to year-end, the High Court granted an order in which the municipality has to adjust the amounts billed to certain residents within the district in respect of water consumption

at a designated flat rate effective from August 2009. The municipality has not made any adjustments to the financial statements in this regard, resulting in service charges and interest earned amounting to R40 568 992 and R3 690 493 respectively (2011: R34 076 534 and R3 883 807) and trade receivables amounting to R41 413 711 (2011: R65 298 760) being overstated by an unknown amount. The municipality's records did not permit the application of alternative procedures regarding this amount. Consequently I was unable to determine whether any adjustments in the financial statements amounts were necessary.

Expenditure

8. Included in expenditure of R460 746 202 (2011: R464 194 142), in the financial statements, is an amount of R27 455 612 (R37 624 116) for commission expenses incurred for water related services and an amount of R16 366 144 (2011: R Nil) for debt impairment for which no sufficient appropriate audit evidence could be provided by the municipality. The municipality's records did not permit the application of alternative procedures regarding this amount. Consequently I was unable to determine whether any adjustments relating to commission expense and debt impairment in the financial statements were necessary.

Trade and other receivables

9. I was unable to determine the effect on trade and other receivables from service charges. The municipality's records did not permit the application alternative procedures regarding the amount. Consequently I was unable to determine whether any adjustment relating to accounts receivable stated at R41 413 711 (2011: R65 298 760) in the financial statements was necessary.
10. Included in the trade and other receivable balance of R47 032 476 (2011: R73 022 076) is an amount of R88 794 261 (2011: R21 737 666) provided as doubtful debts. The municipality could not provide appropriate supporting documentation for the doubtful debts stated in the financial statements. The municipality's records did not permit the application alternative procedures regarding the amount. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the existence, completeness, valuation and allocation pertaining to the provision for doubtful debts.

Value Added Tax (VAT)

11. Disclosed in notes no 8 and 9, to the annual financial statements, is a VAT payable balance of R14 513 279 (2011: R9 647 565) and a VAT receivable balance of R10 975 448 (R45 442 622). The balance includes the amount of VAT payable on transactions with local municipalities for water related services. The municipality could not provide appropriate supporting documentation for the amount. The municipality's records did not permit the application alternative procedures regarding the amount. Consequently I was unable to determine whether any adjustment relating to VAT payable and VAT receivable in the financial statements was necessary.

Trade and other payables

12. I was unable to determine the effect on trade and other payables arising from the commission expense. The municipality's records did not permit the application alternative procedures regarding the amount. Consequently I was unable to determine whether any adjustment relating to trade and other payables stated at R28 562 960 (2011: R55 901 189) in the financial statements was necessary.

Accumulated surplus

13. During 2010 I was unable to obtain sufficient appropriate documentation to support transactions of R2 581 714 recorded as commission expenses in the accounting records of the municipality. Consequently I was unable to determine whether any adjustments to this amount

were necessary. My audit opinion on the financial statements for the period ended 30 June 2011 was modified accordingly. My opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.

Irregular expenditure

14. Section 65(2)(i) of the MFMA requires the municipality to implement and supply chain management policy in a way that is fair, equitable, transparent, competitive and cost effective. The municipality procured goods and services amounting to R25 463 374 in contravention of the supply chain management requirements. The amount was not included in the irregular expenditure, disclosed in the note 33.2 to the financial statements. There were no satisfactory alternative audit procedures that I could perform to obtain a reasonable assurance that all irregular expenditure was properly recorded. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the completeness of irregular expenditure of R1 359 691 (2011: R42 504 682) disclosed in note 33.2 to the financial statements.

Qualified opinion

15. In my opinion, except for the possible effects of the matters described in the Basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the Capricorn District Municipality as at 30 June 2012 and its financial performance and cash flows for the year then ended, in accordance with SA Standards of GRAP and the requirements of the MFMA and the DoRA.

Emphasis of matter

16. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Restatement of corresponding figures

17. As disclosed in note 31 to the financial statements, the corresponding figures for 30 June 2011 have been restated as a result of an error discovered during 2012 in the financial statements of the Capricorn District Municipality at, and for the year ended, 30 June 2011.

Material under spending of the budget and conditional grants

18. As disclosed in Annexure E to the financial statements, the municipality has materially underspent their budget to the amount of R101 406 920. As a consequence, the municipality has not achieved all of its objectives in the Infrastructure Services department .
19. With reference to note 11 to the financial statements, the municipality materially underspent its conditional grants for the year under review by R112 862 083. This was mainly due to late registration of projects on Municipal Infrastructure Grants at the Department of Cooperative Governance.

Additional matters

20. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unaudited supplementary schedules

21. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

22. In accordance with the PAA and the *General Notice* issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

23. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages XX to XX of the annual report.
24. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury annual reporting principles and whether the reported performance is consistent with the planned development priorities. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the *National Treasury Framework for managing programme performance information* (FMPPI).

The reliability of the information in respect of the selected development priorities is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

25. The material findings are as follows:

Usefulness of information

Consistency

26. The Municipal Systems Act, section 41(c) requires that the actual achievements against all planned indicators and targets must be reported annually. The annual performance report submitted for audit purposes did not include the actual performance of 22% of the planned indicators and targets specified in the integrated development plan for the year under review.
27. The Municipal Systems Act, section 41(c) requires that the actual achievements against all planned indicators and targets must be reported annually. A total of 66% of the planned indicators and targets as per the approved integrated development plan are not consistent with the reported indicators and targets.

Additional matter

28. I draw attention to the following matter below. My conclusion is not modified in respect of this matter.

Achievement of planned targets

29. Of the total number of 354 targets planned for the year as per the annual performance report, 145 of the targets were not achieved during the year under review. This represents 41% of total planned targets that were not achieved during the year under review. This was due to under spending of the budget and conditional grants.

Compliance with laws and regulations

30. I performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the *General Notice* issued in terms of the PAA are as follows:

Annual financial statements, performance and annual reports

31. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the Municipal Finance Management Act.

Material misstatements of non-current assets, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

32. The municipal council did not adopt an oversight report, containing comments on the annual report, within two months from the date on which the 2010/11 annual report was tabled, as required by section 129(1) of the MFMA.

Audit committees

33. The audit committee did not advise the council on matters relating to internal financial control and internal audits, risk management, accounting policies, effective governance, performance management and performance evaluation as required by section 166(2)(a) of the MFMA.
34. The audit committee did not advise the council on matters relating to the adequacy, reliability and accuracy of financial reporting and information, as required by section 166(2)(a)(iv) of the MFMA.
35. The audit committee did not advise the council on matters relating to compliance with the MFMA as required by section 166(2)(a)(vii) of the MFMA.

Internal audit

36. The internal audit unit did not audit the performance measurements on a continuous basis and as required by Municipal Planning and Performance Management Regulation 14(1)(c).

Procurement and contract management

37. Contracts were awarded to bidders based on preference points that were not allocated and calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act and its regulations.
38. Contracts were awarded to bidders that did not score the highest points in the evaluation process, as required by section 2(1)(f) of Preferential Procurement Policy Framework Act.
39. Sufficient appropriate audit evidence could not be obtained that all contracts were awarded in accordance with the legislative requirements and a procurement process which is fair, equitable, transparent and competitive, as supporting documents were not available for audit purposes.
40. Awards were made to providers who are persons in service of other state institutions or whose directors/ principal shareholders are persons in service of other state institutions, in contravention of SCM regulations 44.

Expenditure management

41. Money owing by the municipality was not always paid within 30 days of receiving an invoice or statement, as required by section 65(2)(e) of the Municipal Finance Management Act.
42. The accounting officer did not take effective steps to prevent irregular expenditure, as required by section 62(1)(d) of the Municipal Finance Management Act

Revenue management

43. Sufficient audit evidence could not be obtained that revenue had been reconciled on a weekly basis, as required by 64(2)(h) of the Municipal Finance Management Act.

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Internal control

44. I considered internal control relevant to my audit of the financial statements, the annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the basis for qualified opinion, the findings on the performance report and the findings on compliance with laws and regulations included in this report.

Leadership

45. Due to internal processes that had to be followed, the actions taken by those charged with governance were not implemented on a timely basis.

Financial and performance management

46. Management did not ensure that adequate controls are implemented at the local municipalities who act as agents on behalf of the district municipality. The local municipalities maintain the accounting system and related controls over the water related transactions and therefore the accuracy and completeness of the water revenue is dependent on the accuracy of the accounting system maintained at the local municipalities.

Governance

47. Although the internal audit was functioning effectively within the municipality, consideration was not given to the risks relating to the local municipalities who maintain the accounting system and related controls over the water related transactions. The accuracy of the water revenue disclosed in the municipality's annual financial statements is dependent on the accuracy of the accounting system maintained at the local municipalities

Auditor-General

Polokwane

30 November 2012



AUDITOR - GENERAL
SOUTH AFRICA

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